

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Lexington-Worth Townships Utilities Authority	County Sanilac
Audit Date 2/28/05	Opinion Date 8/19/05	Date Accountant Report Submitted to State: 8/31/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations. Internal Control Letter	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Stewart, Beauvais & Whipple PC			
Street Address 1979 Holland Avenue	City Port Huron	State MI	ZIP 48060
Accountant Signature 		Date 8/31/05	

**LEXINGTON-WORTH TOWNSHIPS
UTILITIES AUTHORITY**

ANNUAL FINANCIAL REPORT

**FOR THE YEARS ENDED
FEBRUARY 28, 2005 AND FEBRUARY 29, 2004**

Stewart,
Beauvais
& Whipple P.C.

CERTIFIED PUBLIC ACCOUNTANTS



LEXINGTON-WORTH TOWNSHIPS UTILITIES AUTHORITY

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INDEPENDENT AUDITORS' REPORT

To the Lexington-Worth Townships
Utilities Authority Board

We have audited the accompanying Financial Statements of the Lexington-Worth Townships Utilities Authority as of February 28, 2005 and February 29, 2004, and for the years then ended, as listed in the Table of Contents. These financial statements are the responsibility of the Authority. Our responsibility is to express an opinion on these Financial Statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contain in **Government Auditing Standards**, issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Financial Statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Financial Statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the aforementioned financial statements referred to above presents fairly, in all material respects, the financial position of the Lexington-Worth Townships Utilities Authority as of February 28, 2005 and February 29, 2004, and the results of its operation and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, the Authority adopted Governmental Accounting Standards Board Statement 34 and related statements as of and for the year ended February 28, 2005. This resulted in a change to the Authority's basic financial statement format and content.

In accordance with **Government Auditing Standards**, we have also issued our report, dated August 19, 2005, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with **Government Auditing Standards** and should be considered in assessing the results of our audit.

The accompanying financial statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be a part of, the basic financial statements.

Stewart, Beauvais & Whipple

Certified Public Accountants

August 19, 2005

BASIC FINANCIAL STATEMENTS

LEXINGTON-WORTH TOWNSHIPS UTILITIES AUTHORITY

STATEMENT OF NET ASSETS FEBRUARY 28, 2005 AND FEBRUARY 29, 2004

ASSETS

	2005	2004
Current Assets:		
Cash and cash equivalents	\$ 26,655	\$ 6,492
Accounts receivable -		
Water service	26,317	19,170
Inventory	404	2,100
Prepaid Insurance	9,486	8,455
	<u>62,862</u>	<u>36,217</u>
Capital Assets:		
Land	13,396	13,396
Easement	2,500	2,500
Building	133,629	133,629
Water Tower	528,569	528,569
Vehicles	16,350	16,350
Equipment	13,588	13,588
	<u>708,032</u>	<u>708,032</u>
Less-accumulated depreciation	(52,290)	(33,058)
	<u>655,742</u>	<u>674,974</u>
	<u>\$ 718,604</u>	<u>\$ 711,191</u>

LIABILITIES AND NET ASSETS

Current Liabilities:		
Accounts Payable	28,471	23,425
Accrued Liabilities	2,028	1,666
	<u>30,499</u>	<u>25,091</u>
Net Assets		
Invested in capital assets	655,743	674,974
Unrestricted	32,372	11,126
	<u>688,115</u>	<u>686,100</u>
	<u>\$ 718,604</u>	<u>\$ 711,191</u>

See Notes to
Financial Statements

LEXINGTON-WORTH TOWNSHIPS UTILITIES AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS FOR THE YEAR ENDED FEBRUARY 28, 2005 AND FEBRUARY 29, 2004

	2005	2004
Operating Revenues:		
Sales of services	\$ 325,983	\$ 281,986
Miscellaneous Revenue	65	16
	<u>326,048</u>	<u>282,002</u>
Operating Expenses:		
Salaries and fringes	88,369	95,345
Operating supplies	21,883	32,602
Contracted services	7,460	16,254
Insurance	14,608	12,683
Utilities and telephone	3,579	3,648
Repairs and maintenance	3,868	1,149
Gas and Oil	560	830
Printing and Publishing	1,012	701
Water purchases	153,152	146,380
Water testing and fees	915	778
Postage	3,820	4,176
Depreciation	19,232	19,232
Other	5,707	5,757
	<u>324,165</u>	<u>339,535</u>
Operating Income (Loss)	1,883	(57,533)
Non-Operating Revenues (Expenses):		
Interest revenue	132	134
Interest expense	-	(150)
Embezzlement loss	-	(2,575)
	<u>132</u>	<u>(2,591)</u>
Change in net assets	<u>2,015</u>	<u>(60,124)</u>
Net asset at beginning of year	686,100	737,769
Prior period adjustment	<u>-</u>	<u>8,455</u>
Net assets at beginning of year restated	<u>686,100</u>	<u>746,224</u>
Net assets at end of year	<u>\$ 688,115</u>	<u>\$ 686,100</u>

LEXINGTON-WORTH TOWNSHIPS UTILITIES AUTHORITY

STATEMENT OF CASH FLOWS FOR THE YEARS ENDED FEBRUARY 28, 2005 AND FEBRUARY 29, 2004

	2005	2004
Cash Flows From Operating Activities:		
Receipts from customers	\$ 318,886	\$ 288,049
Purchase of water	(150,773)	(146,380)
Payments to suppliers	(60,729)	(63,504)
Payments to employees, board and payroll benefits	(87,353)	(80,862)
Net Cash Provided (Used) By Operating Activities	<u>20,031</u>	<u>(2,697)</u>
Cash Flow From Non-Capital Financing Activities		
Embezzlement loss	-	(2,575)
Interest	-	(150)
Net Cash Used by Non Capital Financing Activities	<u>-</u>	<u>(2,725)</u>
Cash Flows From Investing Activities:		
Interest Earned	132	134
Net Cash Provided by Investing Activities	<u>132</u>	<u>134</u>
Net Increase (Decrease) in cash	20,163	(5,288)
Cash at beginning of year	<u>6,492</u>	<u>11,780</u>
Cash at end of year	<u><u>\$ 26,655</u></u>	<u><u>\$ 6,492</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Operating loss for the year	1,883	(57,533)
Adjustments to reconcile operating loss to net cash used by operating activities -		
Depreciation	19,232	19,232
Changes in assets and liabilities -		
Accounts receivable	(7,147)	21,764
Interest receivable	1,696	-
Prepaid expenses	(1,031)	-
Accounts payable	5,046	12,613
Accrued liabilities	352	1,227
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 20,031</u></u>	<u><u>\$(2,697)</u></u>

See Notes to
Financial Statements

LEXINGTON-WORTH TOWNSHIPS UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS FEBRUARY 28, 2005 AND FEBRUARY 29, 2004

The accounting methods adopted by the Lexington-Worth Township Utilities conforms to accounting principles generally accepted in the United States of America as applied to governmental entities. The following Notes to Financial Statements are an integral part of the Authority's financial statements:

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Reporting Entity –

The Lexington-Worth Townships Utilities Authority was created under the provisions of Act 233, Public Acts of Michigan, 1955, as amended, by the Townships of Lexington and Worth, both located in the County of Sanilac, Michigan. The purpose of this Authority is to acquire, own, improve, enlarge, extend and operate a water supply system and/or wastewater collection and treatment system in accordance with the authorization of Act 233, Public Acts of Michigan, 1955, as amended.

The governing body of the Authority is a six (6) member Board of Trustees made up of three voting representatives for each Township.

B. In June 1999, the GASB issued Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments.

The Authority elected to adopt GASB 34 for the year ended February 28, 2005. The most significant change to financial report was the reporting of equity as net assets.

C. Government-Wide and Fund Financial Statements –

The government-wide financial statements (i.e. the statement of net assets and the statement of changes in net assets) report information on all of the activities of the Authority. The Lexington-Worth Township Utilities Authority is accounted for in one business-type fund.

D. Measurement Focus, Basis of Accounting and Financial Statement Presentation –

The Authority's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the limits of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for this business-type activity, subject to this same limitation. The Authority has elected not to follow subsequent private-sector guidance.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted first, then unrestricted resources as they are needed.

LEXINGTON-WORTH TOWNSHIPS UTILITIES AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2005 AND FEBRUARY 29, 2004**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (cont'd):

E. Assets, Liabilities, and Net Assets –

Cash and Cash Equivalent –

The Authority's cash and cash equivalent are savings accounts, demand deposits, and short term investments with original maturities of three months or less from the date of acquisition.

Receivable –

The Authority bills customers for water usage in both Lexington and Worth Townships. The receivable at year-end represents billing for February usage and delinquencies from prior months. Due to past experience, no allowance has been made for uncollectible accounts.

Inventory –

Represents meters that are held for sale to new customers, which are recorded at the lower of cost or market on the first in first out basis.

Prepaid Items –

Certain payments to vendors reflect cost applicable to future fiscal years and are recorded as prepaid expenses.

Capital Assets –

The Lexington-Worth Townships Utilities Authority was established as an operating authority with the water utility distribution lines, belonging to the Townships of Lexington and Worth Townships. Water is purchased through agreement with the Village of Lexington, as the Village owns the Water Utility Plant.

Estimates –

In preparing financial statements in conformity with U.S. generally accepted accounting principles, management is required to make estimates and assumptions that affect the reporting amount of assets and liabilities, the disclosure of contingent assets and liabilities, the disclosures of contingent assets and liabilities at date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 – CASH:

The Lexington-Worth Township Utilities Authority's deposits consist of a checking account. At February 28, 2005 and February 29, 2004 the carrying amounts are \$26,655 and \$6,492, respectively, and the bank balances are \$26,850 and \$7,091, respectively. The bank balances are insured by the FDIC.

LEXINGTON-WORTH TOWNSHIPS UTILITIES AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2005 AND FEBRUARY 29, 2004**

NOTE 3 – ACCOUNTS RECEIVABLE – WATER SERVICE:

The Accounts Receivable – Water service of \$26,317 at February 28, 2005 and \$19,170 at February 29, 2004, represents billed user charges due at the end of the year. All water charges shall be deemed delinquent if not paid prior to the last day herein provided for payment of the same, and penalty of 5% shall be charged for each month, or fraction thereof, that the same shall remain delinquent. Provided further, that the water supply to any premises where the charges have been delinquent for a period of one (1) month or more may be shut off and withheld until payment of such delinquent charges is made to the Authority.

All water charges shall be a lien upon the premises from and after their due date, and shall be assessed against said premises. All unpaid water charges which from the first day of June of each year have remained delinquent for a period of one (1) month shall be reported by the Authority and may require such charges to be transferred and reassessed upon the Township tax rolls in the same manner that unpaid special assessments are transferred and reassessed upon said tax roll. Delinquent water taxes may also be collected by suit brought in the name of the Lexington-Worth Townships Utilities Authority against the owner of the premises.

NOTE 4 – CAPITAL ASSETS:

The Lexington-Worth Townships Utilities Authority was established as an operating authority with the water utility distribution line, belonging to the Townships of Lexington and Worth Townships. Water is purchased through agreement with the Village of Lexington, as the Village owns the Water Utility Plant. The following is a summary of the property and equipment owned by the Lexington-Worth Townships Utilities Authority:

<u>Description</u>	<u>February 28, 2005</u>		
	<u>Original Costs</u>	<u>Accumulated Depreciation</u>	<u>Book Value (Net)</u>
Land	\$ 13,396	\$ -	\$ 13,396
Easement	2,500	-	2,500
Building	133,629	6,682	126,947
Water Tower	528,569	26,428	502,141
Truck	16,350	11,445	4,905
Equipment	<u>13,588</u>	<u>7,735</u>	<u>5,853</u>
Total	<u>\$ 708,032</u>	<u>\$ 52,290</u>	<u>\$ 655,742</u>

Depreciation expense for the year ended February 28, 2005 is \$19,232.

LEXINGTON-WORTH TOWNSHIPS UTILITIES AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2005 AND FEBRUARY 29, 2004**

NOTE 4 – CAPITAL ASSETS – (cont'd):

Description	February 29, 2004		
	Original Costs	Accumulated Depreciation	Book Value (Net)
Land	\$ 13,396	\$ -	\$ 13,396
Easement	2,500	-	2,500
Building	133,629	4,009	129,620
Water Tower	528,569	15,857	512,712
Truck	16,350	8,175	8,175
Equipment	<u>13,588</u>	<u>5,017</u>	<u>8,571</u>
Total	<u>\$ 708,032</u>	<u>\$ 33,058</u>	<u>\$ 674,974</u>

Depreciation expense for the year ended February 29, 2004 is \$19,232.

NOTE 5 – PRIOR PERIOD ADJUSTMENT:

A prior period adjustment has been made to reflect a portion of the liability insurance premium as prepaid. As a result, the February 29, 2004 financial statements have been restated to reflect prepaid insurance and an increase in the beginning, net assets of \$8,455.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Lexington-Worth Townships
Utilities Authority Board

We have audited the financial statements of the Lexington-Worth Townships Utilities Authority for the year ended February 28, 2005 and have issued our report thereon, dated August 19, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lexington-Worth Townships Utilities Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Lexington-Worth Townships Utilities Authority's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described as follows:

Control over the Financial Recordkeeping Process.

In a small office it is difficult to separate accounting functions, thus provide adequate internal control. The Authority has this lack of segregation of duties.


The Authority has implemented mitigating controls to strengthen internal control over the recordkeeping process; however, it must be recognized that the risk of error or defalcation does still exist.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lexington-Worth Townships Utilities Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under ***Government Auditing Standards***.

This report is intended solely for the use of the management and the Board of the Lexington-Worth Townships Utilities Authority and is not intended to be and should not be used by anyone other than these specified parties.


Certified Public Accountants

August 19, 2005